

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
RANSOM MEMORIAL HOSPITAL
DECEMBER 31, 2015 AND 2014

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Ransom Memorial Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Ransom Memorial Hospital, a component unit of Franklin County, Kansas, as of and for the years ended December 31, 2015 and 2014, which collectively comprise the Hospital's financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Ransom Memorial Hospital as of December 31, 2015 and 2014, and the respective changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Wendling The Nelson & Johnson LLC

Topeka, Kansas
June 7, 2016

FINANCIAL STATEMENTS

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF NET POSITION
December 31,

	ASSETS			
	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 555,525	\$ 61,822	\$ 2,825,853	\$ 39,806
Patient accounts receivable, net of allowance for doubtful accounts of \$3,601,717 in 2015 and \$2,860,000 in 2014	4,923,436		3,436,166	
Sales tax receivable	383,538		416,246	
Other receivables	162,808	4,000	354,713	120
Inventories	929,711		927,872	
Prepaid expenses	296,774		367,202	
Estimated third-party payor settlements	60,199		339,954	
Total current assets	<u>7,311,991</u>	<u>65,822</u>	<u>8,668,006</u>	<u>39,926</u>
ASSETS LIMITED AS TO USE				
Internally designated by Board	9,000,392		7,983,982	
Deposit with Community Foundation		466,912		442,018
	<u>9,000,392</u>	<u>466,912</u>	<u>7,983,982</u>	<u>442,018</u>
CAPITAL ASSETS, net	<u>16,819,266</u>	<u>190,248</u>	<u>16,756,159</u>	<u>416,780</u>
Total assets	<u>\$ 33,131,649</u>	<u>\$ 722,982</u>	<u>\$ 33,408,147</u>	<u>\$ 898,724</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Accounts payable and other accrued expenses	\$ 1,096,780	\$ -	\$ 981,767	\$ -
Construction and equipment costs payable	152,066		12,531	
Salaries, wages, and related withholdings payable	479,595		971,307	
Accrued discretionary leave	671,841		606,042	
Estimated third-party payor settlements	174,686		257,337	
Total current liabilities	<u>2,574,968</u>	<u>-</u>	<u>2,828,984</u>	<u>-</u>
NET POSITION				
Invested in capital assets - net of related debt	16,819,266	190,248	16,756,159	416,780
Restricted				
Expendable for specific purposes		16,921		14,279
Nonexpendable permanent endowments		438,765		438,765
Unrestricted	<u>13,737,415</u>	<u>77,048</u>	<u>13,823,004</u>	<u>28,900</u>
Total net position	<u>30,556,681</u>	<u>722,982</u>	<u>30,579,163</u>	<u>898,724</u>
Total liabilities and net position	<u>\$ 33,131,649</u>	<u>\$ 722,982</u>	<u>\$ 33,408,147</u>	<u>\$ 898,724</u>

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 35,154,696	\$ -	\$ 31,595,215	\$ -
Electronic health record incentives	97,051		666,446	
Other	<u>662,265</u>	<u>87,096</u>	<u>826,200</u>	<u>56,389</u>
Total operating revenue	<u>35,914,012</u>	<u>87,096</u>	<u>33,087,861</u>	<u>56,389</u>
Operating expenses				
Salaries and wages	18,473,106		18,020,185	
Employee benefits	3,723,027		3,825,832	
Supplies and other	13,576,890	247,060	10,751,214	18,061
Depreciation and amortization	<u>2,128,600</u>	<u>15,369</u>	<u>2,236,297</u>	<u>16,298</u>
Total operating expenses	<u>37,901,623</u>	<u>262,429</u>	<u>34,833,528</u>	<u>34,359</u>
Operating income (loss)	<u>(1,987,611)</u>	<u>(175,333)</u>	<u>(1,745,667)</u>	<u>22,030</u>
Nonoperating revenues (expenses)				
Investment income	22,006	(409)	17,356	23,266
Noncapital grants and contributions	13,240		13,400	
Sales tax revenue	1,689,500		1,715,781	
Other	<u>(41,838)</u>		<u>12,239</u>	
Total nonoperating revenues, net	<u>1,682,908</u>	<u>(409)</u>	<u>1,758,776</u>	<u>23,266</u>
Excess of revenues over (under) expenses before capital grants and contributions	(304,703)	(175,742)	13,109	45,296
Capital grants and contributions	<u>282,221</u>		<u>30,000</u>	
Change in net position	(22,482)	(175,742)	43,109	45,296
Net position at beginning of year	<u>30,579,163</u>	<u>898,724</u>	<u>30,536,054</u>	<u>853,428</u>
Net position at end of year	<u>\$ 30,556,681</u>	<u>\$ 722,982</u>	<u>\$ 30,579,163</u>	<u>\$ 898,724</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 33,864,530	\$ -	\$ 31,627,110	\$ -
Payments to or on behalf of employees	(22,583,046)		(22,045,293)	
Payments to suppliers	(13,432,288)	(250,941)	(11,123,562)	5,887
Other receipts and payments	951,221	87,096	1,438,120	56,390
Net cash provided (used) by operating activities	(1,199,583)	(163,845)	(103,625)	62,277
Cash flows from noncapital financing activities				
Sales tax revenue	1,722,208		1,684,535	
Noncapital grants and contributions	13,240		13,400	
Net cash provided by noncapital financing activities	1,735,448	-	1,697,935	-
Cash flows from capital and related financing activities				
Purchases of capital assets	(2,094,010)	(74,043)	(689,290)	
Grants and contributions for capital	282,221		30,000	
Proceeds from sale of equipment		285,207	18,500	
Net cash provided (used) by capital and related financing activities	(1,811,789)	211,164	(640,790)	-
Cash flows from investing activities				
Increase in assets limited as to use	(1,013,800)	(35,152)	(17,503)	(104,257)
Investment income received	19,396	9,849	18,716	8,243
Net cash provided (used) by investing activities	(994,404)	(25,303)	1,213	(96,014)
Change in cash and cash equivalents	(2,270,328)	22,016	954,733	(33,737)
Cash and cash equivalents at beginning of year	2,825,853	39,806	1,871,120	73,543
Cash and cash equivalents at end of year	<u>\$ 555,525</u>	<u>\$ 61,822</u>	<u>\$ 2,825,853</u>	<u>\$ 39,806</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (1,987,611)	\$ (175,333)	\$ (1,745,667)	\$ 22,030
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	2,128,600	15,369	2,236,297	16,298
Provision for bad debts	3,990,000		3,990,033	
Changes in				
Patient accounts receivable	(5,477,270)		(3,613,631)	
Inventories	(1,839)		(17,804)	
Prepaid expenses	70,428		(108,371)	
Accounts payable and accrued expenses	(310,900)		(445,449)	
Estimated third-party payor settlements	197,104		(344,507)	
Other receivables	<u>191,905</u>	<u>(3,881)</u>	<u>(54,526)</u>	<u>23,949</u>
Net cash provided (used) by operating activities	<u>\$ (1,199,583)</u>	<u>\$ (163,845)</u>	<u>\$ (103,625)</u>	<u>\$ 62,277</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

A summary of the significant accounting policies of Ransom Memorial Hospital consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

Ransom Memorial Hospital (Hospital) is an acute care hospital located in Ottawa, Kansas. The Hospital is owned by Franklin County, Kansas (County), and is governed by a seven-member Board of Trustees appointed by the County Commissioners. The Hospital is a component unit of the County.

The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

Ransom Memorial Hospital Charitable Association, Inc. (Association), is a not-for-profit corporation established in 1991 for the purpose of providing financial assistance to the Hospital and assisting the Hospital and others in the recruitment of physicians and other medical health care personnel to locate and practice in Franklin County, Kansas. The Association is administered by a self-perpetuating Board of Directors. One of the seven members of that Board is also a member of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital utilizes enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

The Hospital considers all cash and invested cash, excluding amounts reported as assets limited as to use and short-term investments, to be cash equivalents.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for the purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by contributors for specific purposes; and assets required to be retained in perpetuity by the contributors.

9. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating gains and losses.

10. Accrued discretionary leave

Hospital policies permit most employees to accumulate benefits (including paid time away from work to use for personal business, vacation, and holidays) that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

11. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees (Note K). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience. Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary from the estimate.

12. Net position

Net position of the Hospital is classified in four components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable" is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. "Restricted nonexpendable" is net position equal to the principal portion of permanent endowments. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

13. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

15. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

16. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Association is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. Management of the Association is not aware of any uncertain tax positions. Tax reporting years that remain open for audit include 2015, 2014, 2013, and 2012.

17. Subsequent events

The Hospital has evaluated all subsequent events through the date of the independent certified public accountant's report which is the date the financial statements were available to be issued.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated settlements with third-party payors consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Physician services are paid based on a prospectively determined fee schedule. Outpatient services are paid at prospectively determined rates per occasion of service. Those rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is paid for services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2013.

Medicaid - Inpatient acute care services rendered are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered are paid at prospective rates determined on either a per diem or a fee-for-service basis.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue		
Inpatient	\$ 16,106,241	\$ 15,534,127
Outpatient	62,133,027	53,408,807
Physician clinics	<u>7,166,139</u>	<u>6,310,366</u>
	85,405,407	75,253,300
Third-party contractual adjustments	(45,184,644)	(38,782,659)
Medicaid DSH payments	727,581	1,025,368
Medicaid PAP payments	279,914	345,115
Other discounts and allowances	(1,655,986)	(1,903,338)
Charity care	(427,576)	(352,538)
Provision for bad debts	<u>(3,990,000)</u>	<u>(3,990,033)</u>
Net patient service revenue	<u>\$ 35,154,696</u>	<u>\$ 31,595,215</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 37 percent and 9 percent in 2015, and 37 percent and 11 percent in 2014, of the Hospital's net patient service revenue, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2015 and 2014, was \$427,576 and \$352,538, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was \$157,380 and \$146,150 for 2015 and 2014, respectively.

NOTE C - ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE C - ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS - Continued

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by CMS. During the years ended December 31, 2015 and 2014, the Hospital recognized \$97,051 and \$666,446 of revenue for EHR incentive payments.

The Hospital incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Hospital's recognition of EHR incentive payments as revenue.

NOTE D - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's allowance for uncollectible accounts on amounts due from patients was 87 percent and 89 percent of self-pay accounts receivable as of December 31, 2015 and 2014, respectively. The Hospital's net bad debt write-offs were \$3,583,253 and \$4,490,728 for the years ended December 31, 2015 and 2014, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended December 31, 2015 or 2014. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE E - ASSETS LIMITED AS TO USE

Internally designated assets are assets to be used for replacement of capital assets or for the purchase of additional capital assets. The assets may be used for other purposes by action of the Board. Internally-designated assets consist of the following:

	<u>2015</u>	<u>2014</u>
Invested cash	\$ 8,993,929	\$ 7,980,130
Interest receivable	<u>6,463</u>	<u>3,852</u>
	<u>\$ 9,000,392</u>	<u>\$ 7,983,982</u>

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE E - ASSETS LIMITED AS TO USE - Continued

Assets limited as to use, held by the Association, are carried at fair market value and consist of the following:

	<u>2015</u>	<u>2014</u>
Invested cash and money market pool	\$ 23,293	\$ 21,917
Equity pool	278,511	264,598
Fixed income pool	<u>165,108</u>	<u>155,503</u>
	<u>\$ 466,912</u>	<u>\$ 442,018</u>

The above amounts are invested in pooled investment accounts through the Greater Kansas City Community Foundation. These investments are valued by the Greater Kansas City Community Foundation.

NOTE F - CAPITAL ASSETS

Capital assets consist of the following:

	Balance December 31, 2014	Transfers and additions	Retirements	Balance December 31, 2015
Land	\$ 20,000	\$ 285,206	\$ -	\$ 305,206
Land improvements	373,242			373,242
Buildings	24,982,362	247,173		25,229,535
Equipment	<u>13,372,537</u>	<u>1,224,672</u>	<u>-</u>	<u>14,597,209</u>
	<u>38,748,141</u>	<u>1,757,051</u>	<u>-</u>	<u>40,505,192</u>
Less accumulated depreciation and amortization				
Land improvements	353,648	2,805		356,453
Buildings	12,352,135	1,061,340	-	13,413,475
Equipment	<u>9,346,981</u>	<u>1,064,455</u>	<u>-</u>	<u>10,411,436</u>
	<u>22,052,764</u>	<u>2,128,600</u>	<u>-</u>	<u>24,181,364</u>
	16,695,377	(371,549)	-	16,323,828
Construction in progress	<u>60,782</u>	<u>434,656</u>	<u>-</u>	<u>495,438</u>
Capital assets, net	<u>\$ 16,756,159</u>	<u>\$ 63,107</u>	<u>\$ -</u>	<u>\$ 16,819,266</u>

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE F - CAPITAL ASSETS - Continued

	Balance December 31, 2013	Transfers and additions	Retirements	Balance December 31, 2014
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Land improvements	373,242			373,242
Buildings	25,052,048	178,308	247,994	24,982,362
Equipment	13,841,488	416,134	885,085	13,372,537
	<u>39,286,778</u>	<u>594,442</u>	<u>1,133,079</u>	<u>38,748,141</u>
Less accumulated depreciation and amortization				
Land improvements	346,845	6,803		353,648
Buildings	11,503,895	1,096,234	247,994	12,352,135
Equipment	9,092,545	1,133,260	878,824	9,346,981
	<u>20,943,285</u>	<u>2,236,297</u>	<u>1,126,818</u>	<u>22,052,764</u>
Construction in progress	18,343,493	(1,641,855)	6,261	16,695,377
	<u>5,792</u>	<u>54,990</u>		<u>60,782</u>
Capital assets, net	<u>\$18,349,285</u>	<u>\$ (1,586,865)</u>	<u>\$ 6,261</u>	<u>\$16,756,159</u>

The Hospital has outstanding construction contract commitments of approximately \$400,000 as of December 31, 2015.

NOTE G - OPERATING LEASES

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2015 and 2014 was approximately \$142,000 and \$135,000, respectively.

Scheduled minimum rental payments for noncancellable operating leases for the next five years are as follows:

2016	\$ 56,961
2017	25,332
2018	<u>2,112</u>
	<u>\$ 84,405</u>

NOTE H - CONTINGENCY

The Hospital has entered into an agreement with a financial institution under which the Hospital transfers to the financial institution its interest in certain self-pay accounts receivable. The accounts are assumed with full recourse, and the Hospital is contingently liable for any uncollected accounts. Approximately \$29,000 and \$60,000 of these accounts were uncollected at December 31, 2015 and 2014, respectively. Management considers this contingency in estimating its allowance for doubtful accounts.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE I - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$3,000,000 per occurrence with an aggregate amount in any policy year of \$3,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through June 2016. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks.

NOTE J - PENSION PLANS

Substantially all employees of the Hospital participate in the Ransom Memorial Hospital Match Plan or Physicians Match Plan (Match Plans) which are defined contribution pension plans. The payroll for employees covered by the Match Plans for 2015 and 2014 was approximately \$12,590,000 and \$11,720,000, respectively. The total payroll for 2015 and 2014 was \$18,473,106 and \$18,020,185, respectively. Contributions to the Match Plans by the Hospital are discretionary and are determined annually by the Board of Trustees of the Hospital. Contributions to the Match Plans are based upon matching employee contributions to the Match Plans up to a specific percentage of the employee's compensation. Hospital contributions to the Match Plans vest based upon the Match Plan's vesting schedule and the employee's years of service with the Hospital. Employee contributions to the Match Plans vest immediately. Net pension expense was \$305,913 for 2015 and \$192,151 for 2014. Contributions to the Match Plans are invested in self-directed investment accounts with an insurance company.

NOTE K - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital is self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$120,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE K - EMPLOYEE HEALTH INSURANCE CLAIMS - Continued

The following is a summary of the activity under this arrangement:

	<u>2015</u>	<u>2014</u>
Estimated employee health insurance claims payable at the beginning of the year	\$ 161,000	\$ 310,000
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	1,683,550	1,791,804
Employee contributions	769,699	618,786
Payments made for claims and reinsurance	<u>(2,414,249)</u>	<u>(2,559,590)</u>
Estimated employee health insurance claims payable at the end of the year	<u>\$ 200,000</u>	<u>\$ 161,000</u>

NOTE L - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits, net of moneys acquired through grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer. Banks may also utilize irrevocable letters of credit to secure funds for depositors.

The carrying amount of the Hospital's deposits with financial institutions was \$9,548,354 and the bank balance was \$9,694,787 at December 31, 2015. The bank balance is categorized as follows at December 31, 2015:

Amount insured by the F.D.I.C., or collateralized with securities held by the Hospital or by its agent in the Hospital's name	\$ 1,798,496
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name, or by letters of credit)	<u>7,896,291</u>
	<u>\$ 9,694,787</u>

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE M - CONCENTRATION OF CREDIT RISK

The Hospital is located in Ottawa, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	38%	30%
Medicaid	6	10
Blue Cross	9	10
Commercial insurance	13	15
Self-pay	<u>34</u>	<u>35</u>
	<u>100%</u>	<u>100%</u>

NOTE N - OTHER RELATED PARTY TRANSACTION

Ransom Memorial Hospital Charitable Association, Inc., is a component unit of the Hospital (Note A2). The Association made transfers to the Hospital of 200,000 in 2015 and \$0 in 2014, for capital asset additions. The Ransom Memorial Hospital Auxiliary transferred \$82,221 and \$30,000 to the Hospital in 2015 and 2014, respectively. In 2015, the Hospital transferred \$253,000 to the Charitable Association for the purchase of land.